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CENTRAL INTELLIGENCE AGENCY

THE CURRENT SITUATION IN AUSTRIA

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SUMMARY

Though the importance of Austria to the US is largely negative, US commitments and interests there require maintenance of a Western-oriented government which can be given eventual full independence. Despite its position on the fringes of the Soviet sphere of influence, virtually surrounded by Satellite countries, and partially occupied by the Soviet Army, Austria remains one of the most politically stable and anti-Communist countries in Europe. The people are apparently determined to maintain their identity with the West. The USSR could absorb Austria only by military force, or by a combination of economic and political pressures supplemented by Satellite interference following quadripartite troop withdrawal.

The present Austrian Government, which represents the overwhelmingly anti-Soviet sentiment of the people, is stable and is fundamentally cooperative with the West. The Communist Party is too small to exert any influence and has little chance of growing without direct outside support, because the well disciplined Socialists retain control of the elements through which the Communists would have to work.

Should the Communists gain control of Austria despite these obstacles, the immediate results would be: (a) a serious demoralization of pro-Western elements throughout Europe; (b) facilitated Communist penetration of Italy and exposure of that country to easier aggression; (c) loss of a most important current source of information on the USSR.

The major difficulties which the present government must overcome before it can attain its goal of real independence are economic. While in the western zones are located some major industrial installations and the hydroelectric power to run them, the USSR has control of the agricultural region, of the oil, and of industries in Eastern Austria claimed as German assets. By manipulation of these resources, the USSR has delayed economic recovery, thus weakening the Government.

If Austria should survive quadripartite occupation intact and if its political and economic autonomy could be re-established, its economic prospects would be good and thus also its chances of eventually becoming an economic asset to the economy of Western Europe. Under present conditions, however, it is unlikely that Austria can achieve full economic stability within the next four years.

Note: The information in this report is as of 22 March 1948.
The intelligence organizations of the Departments of State, Navy, and the Air Force have concurred in this report; the Intelligence Division, Department of the Army, concurs with those sections having military implications.

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THE CURRENT SITUATION IN AUSTRIA

1. The Importance of Austria to the US.

Austria, from a US point of view, is of considerable importance but almost entirely in a negative sense. The country contains little of intrinsic value to the US: it is economically weak to such an extent that it must remain an economic liability for some years to come, and its military capacity is negligible. Austria is, however, to be numbered among those European nations which are of great intrinsic importance to the US because they truly wish to attain the status of free and independent democracies. The United States has, moreover, firmly committed itself to a policy directed toward the early establishment of an independent Austrian state. The defeat of this policy by the USSR would have a far-reaching and deleterious effect on the US European position as a whole, disproportionately magnified by the fact that a part of Austria is presently occupied by US troops. The early establishment of Soviet control over Austria would have a seriously adverse psychological effect throughout Western Europe and would have the immediate concrete result of greatly facilitating Communist penetration of Italy. Possibly of minor importance but still of some consequence to the US would be the loss of one of the few remaining valuable US sources of information concerning the USSR.

2. The Political Situation.

The most important single political circumstance relating to Austria, and one which overshadows and conditions all other problems is the fact that Austria is under the military occupation of the United States, Great Britain, France, and the USSR, with the country divided into four zones each occupied by the armed forces of a single power.

Functioning under the supervision of an Allied Commission, the present government is a stable coalition of the two major parties — the People's Party and the Socialist Party. The stability of this coalition, representing 95 percent of the voters in the 1945 election, is based on the determination of the Austrian people to recover their independence and to resist absorption into the Soviet sphere. Although the Austrian Communists are a negligible factor in Austrian politics and are not now represented in the Austrian Government, the Communist coup in Czechoslovakia and evidences of Communist strength in Italy, have considerably dampened the eagerness of both major parties for a withdrawal of the occupation troops as a first step toward actual independence. Although Austrian leaders are confident that no similar coup is possible in Austria, the prospect of a virtual encirclement by aggressive Soviet Satellite states is now particularly disturbing to them. These leaders consider it necessary that the Austrian police force be expanded and that an Austrian Army properly armed and trained, be created as soon as the treaty * is put into effect.

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* Treaty for the Re-establishment of an Independent and Democratic Austria, presently under negotiation by the US, UK, France, and the USSR.

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Austria's sovereignty is still greatly limited by conditions of the occupation, and the treaty which would terminate the occupation remains stalled by the conflict between the East and the West. Unanimous approval by the four occupying powers (US, UK, France, USSR) is required only for matters involving constitutional changes. The number of important matters left to the jurisdiction of the zonal commanders has, however, enabled the USSR unilaterally to nullify decisions of the Austrian Government by countermanding them in its zone. This has been done, for example, by the Soviet seizure of key firms as German assets, by nonrecognition of Austrian nationalization of industries, and by Soviet interference in the distribution of food supplies and petroleum.

Through employment of delaying tactics in negotiations on the treaty, and concurrently through economic penetration of Austria, the USSR has sought to force changes in the composition and orientation of the pro-Western coalition government, intensifying these tactics since the 1945 elections revealed the extreme weakness of the Austrian Communist Party. The few prominent members of the conservative People's Party who once felt that concessions to the USSR might procure Soviet agreement to a treaty now join in supporting the coalition government's opposition to any treaty which would violate Austrian sovereignty, or prejudice Austria's economic recovery. Austrians in general understand clearly, moreover, that firm resistance to Soviet pressure is prerequisite to continuation of US economic aid and that they are bound to the US by economic necessity.

The majority People's Party is a reservoir of all right-of-center political forces. Its instability is the result of a variety of sectional and class interests. This one-party bloc on the right is a novel development in Austrian politics. Because the former pan-German and Nazi parties obviously could not be revived, a vote for the rightist People's Party was the only means of expressing an anti-Marxist sentiment in 1945. This Party currently represents the middle-class, and the industrial and peasant interests; its platform aims primarily at a capitalist democracy acceptable to the Catholic Church. The Party looks to the US for support.

The Austrian Socialist Party is highly disciplined. Its traditional policy of theoretical extremism and practical moderation has enabled it to retain left-wing elements and to extend party influence over some of the peasants and the lower middle-classes, in addition to having the overwhelming support of the trade unions. Currently, its policy of gaining objectives by democratic, evolutionary means is expressed through active participation in the coalition government. While its strong, conservative leadership has gained it enough prestige to win a narrow majority in a new national election, it would, however, probably not gain sufficient votes to give it a practical working majority in the lower house. The Socialist Party platform aims chiefly at the establishment of a Socialist democracy, in general corresponding to that espoused by the British Labor Party. This Party supports US objectives in Austria.

The Austrian Communist Party has been prevented from making any great gains, even during the hardships following each World War, by the strong Socialist hold over the working classes. The Communists withdrew from the government in 1947. The

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fact that Austrian communism is regarded as a tool of the USSR continues to stigmatize the movement.

3. THE ECONOMIC SITUATION.

Shortly before the *Anschluss* with Germany in 1938, Austria was dependent on imports for 25 percent of its foodstuffs, much of its industrial raw material, and about 90 percent of its hard coal. Given general European recovery, relaxation of Soviet economic controls, financial assistance for capital equipment, and favorable trade policy agreements with foreign nations, Austria could achieve within a few years an economic balance which would provide higher standards of living than it had before the war, by exporting electric power, timber, magnesite, and industrial products. At present Austria's economy, even though bolstered by large subsidies from the US, is little above the subsistence level.

Agricultural recovery lags behind that in all other European countries, and Austrians have one of the lowest food rations in Europe. The present basic calorie ration is 1,700 per day as compared with a prewar food consumption level of 2,900. Currently 60 percent of Austria's basic food ration comes from the US. Any delay or interruption in receipt of food from abroad would reduce the ration to approximately 820 calories per day.

Austria's industrial production stands between 50 and 60 percent of the 1937 level, but Soviet withdrawals from current production reduce still further the output available to the Austrian people. Revival of industry has been retarded primarily by the difficulty Austria has encountered in obtaining minimum hard coal requirements, although the supply has increased markedly during the past six months. Most of such anthracite as has been obtained has come from the Ruhr and Poland and could be bought only because it was subsidized by the US. (Substantial quantities of brown coal, produced in the western zones, cannot substitute for hard coal.)

Although the crippling effect of zonal partition has diminished in the past year, Austria's potential for economic recovery is severely handicapped by the Soviet monopoly in key industries, its appropriation of current industrial production for shipment to the USSR, and its removal of industrial facilities from the eastern zone. Although current oil extraction is at a highly excessive rate, increasingly smaller amounts are being made available for Austria.

The eastern zone includes all of the Austrian oil fields and refineries, the industries manufacturing railroad equipment, heavy and light electrical equipment, machine tools, as well as important chemical factories, and automotive and related industries. The rich farming land that formerly produced 60 percent of all agricultural commodities produced in Austria also lies in the Soviet Zone.

In the three western zones are located the forests and the iron deposits, all the hydroelectric potential, pig iron and crude steel production capacity, the nitrogen, staple fiber, and aluminum plants, and the largest antifriction bearing factory in Central Europe, outside Germany.

The USSR not only has a monopolistic position in oil, heavy electrotechnical equipment, Danube shipping, heavy cables and dyestuffs, but it operates these key

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industries, seized in the eastern zone as German assets, as an effective instrument of economic penetration in the western zones. These industries, which are largely exempt from any form of control by the Austrian Government, have been systematically used by the USSR to influence the parts of the Austrian economy it cannot control directly: by means of forcing delivery of raw materials and finished products from the western zones to the Soviet Zone through carefully placed orders, and by tying up Austrian production capacity. This latter is accomplished, on a presently reduced scale, by keeping industrial facilities busy processing raw materials furnished by the Soviet Administration which in turn collects the finished goods.

Although the Administration of Soviet Assets in Austria (USIA), which operates these industries, has made large profits primarily through black market operations, the Soviet economic position in Austria is reportedly now less strong than it has been at any previous time. This decreased activity in Soviet-controlled plants is attributed to Soviet inability to operate the firms in a competitive economy, to reluctance to make capital investments for replacement of obsolete equipment, and to general shortages of raw materials. Soviet moves to integrate USIA enterprises with the economies of the Satellite bloc have apparently been abandoned. The loss of these enterprises, however, is highly detrimental to the Austrian economy, which receives no compensation for the products and raw materials shipped to the USSR or for the finished goods, critically needed at home, bartered by USIA to get raw materials from Czechoslovakia and Yugoslavia.

The actual potential of Austrian industry cannot be gauged by pre-*Anschluss* characteristics, and, until the future relationship of the USSR to the Austrian economy has been established, cannot be assessed with accuracy. Austria's industrial capacity, especially because of developments in petroleum and hydroelectric power, was expanded and diversified during the *Anschluss,* but exploitation of this potential has not yet been possible. The new industrial capabilities will require development abroad of new markets and supplies of raw materials; at the same time, Austria could produce important new industrial wares for home consumption and sale abroad in exchange for the needed raw materials.

By means of bilateral agreements with both western and eastern European countries, Austria has revived some international trade. Since 1946 the country's leading trade partners have been Switzerland, Czechoslovakia, and Italy, followed by other Western countries. Arrangements were completed recently for limited trade with the US-UK Zones of Germany. Although the immediate foreign trade outlook is poor, Austria's natural resources and increased industrial potential are sufficient to support foreign trade above the 1937 level, given rehabilitation and restored control of industrial capacity. Under improved conditions in general European trade, there is a reasonable prospect that Austria could balance its exports against its imports within a few years, meanwhile contributing exports of electric power, timber, and magnesite to the European Recovery Program.

Present meager foreign trade does not reflect Austria's expanded industrial capacity. While in 1947 Austria imported approximately $138 million worth of food

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and other relief supplies and $152 million in agricultural and industrial goods, it exported raw materials and industrial products totalling about $83 million. Serious deficits are expected to continue at least four years.

In the fiscal year 1948/49, Austria will require approximately $317 million in assistance to cover an anticipated balance-of-payments deficit. Under ERP it is probable that Austria as a whole will require assistance in excess of $1 billion during the next four years. Even with outside aid and a reasonable solution of its occupation difficulties, it is unlikely that Austria can expect any great improvement in its basic economy within the next four years. Agricultural recovery will be especially slow. Industrial replacement parts, machinery, and tools must be imported, as well as raw materials. The solution of all these problems depends on the extent to which Austria is successfully absorbed into the economy of Western Europe, or forced into subordination to the USSR, or is able to integrate its economy independently with Europe as a whole.

4. MILITARY SITUATION.

Currently, Austria has no military forces, and its 26,000 police are inadequately equipped and armed. Terms of the Austrian treaty will condition the eventual pattern of Austria's national defense policy. In the meantime, the four occupying powers have agreed on a ceiling of 53,000 men for the future Austrian Army, and 5,000 for the Austrian Air Force, with a top limitation of 90 planes. While Austrian leaders wish to have an adequate defense force available when the treaty becomes effective, they recognize that, as in the past, only international guarantees, backed by active support of major foreign powers, can assure Austrian territorial integrity and political independence.

At the end of March 1948, the occupation forces had the following strengths:

The USSR had 46,000 men broken down as follows: ground forces, 33,000 (2 divisions); air forces, 9,000 (100 fighters, 300 bombers, 50 other types); navy, 1,500; security (MVD), 2,500. All Soviet units in Austria are considered battleworthy because of rigorous combat training.

France maintained 5,000 ground force troops. There are no French Air Force units in Austria.

British occupational forces numbered 10,000 men, 5,000 being combat troops. Their occupational duties all but preclude military training. There are no operational Royal Air Force units in Austria.

5. PROBABLE FUTURE DEVELOPMENTS.

No drastic changes in the current situation in Austria are expected in the near future. It is unlikely that the USSR will sacrifice its present hold over the economy of Austria in order to reach a treaty settlement with the Western Allies, until the USSR decides that quadripartite occupation is blocking the communization of Austria.

The enthusiasm of both major parties in Austria for an early treaty settlement has been considerably reduced by the Communist coup in Czechoslovakia and by other

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external evidences of Communist strength, particularly in Italy. Moreover, the problems raised by virtual encirclement of Austria by aggressive Soviet satellite nations are beginning to take precedence in the minds of Austrian leaders over their concern with obtaining withdrawal of the occupation troops. In order, however, to counter Communist propaganda, it is likely that both Parties will continue to agitate publicly for a treaty, although on a reduced scale and with reservations. Under present conditions, the present coalition government will continue unchanged. Although the Socialists are now believed to have sufficient support to win a narrow majority in a new national election, they could not gain a practical working majority in the lower house, and hence are most unlikely in the near future to precipitate a collapse of the government which would call for elections. The negligible role of the Austrian Communists is expected to continue unchanged.

While the USSR would be capable of communizing its zone of occupation by violence or by a forced partition of the country, such moves are unlikely in the near future. From the Soviet point of view a *putsch* would seem undesirable because it would forfeit western Austria to the US, UK, and France. On the other hand, it is probable that a breakdown of the present treaty negotiations would cause the USSR to increase substantially its economic and political pressure on the government.

Under the circumstances, no drastic change in the Austrian economic situation is anticipated, although in the event that shipments of food are interrupted, a major crisis will arise in the food supply position in late May. The slow rise in the level of industry is expected to continue, but Austrian industry cannot be expected to become stable in less than four years.

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